The Compass

Know the Numbers: IRS Retirement Limits Explained

Key Limits

- IRC §402(G) LIMIT ON EMPLOYEE ELECTIVE DEFERRALS
- IRC §414(V) CATCH-UP CONTRIBUTIONS
- IRC §415(C) MAXIMUM TOTAL CONTRIBUTIONS
- IRC §401(A)(17) MAXIMUM COMPENSATION AMOUNT

Tip! Make sure there is an understanding of the plan's definition of eligible compensation. This is critical because if the contribution calculation is completed on ineligible compensation sources, this is an operational failure that must be corrected. It will also lead to issues with non-discrimination testing.

What Happens When Contribution Limits are Misapplied?

- Impact on nondiscrimination testing, jeopardizing the plan's qualified status
- Participant-level issues, such as excess contributions leading to double taxation or unexpected taxable income
- Potential penalties for the plan, including IRS sanctions or corrective filings under the Employee Plans Compliance Resolution System (EPCRS)

Action Items for Plan Sponsors

- **Understand the limits:** Ensure an understanding of the IRS limits, including how they apply
- **Educate the committee:** Ensure plan committee members are trained on the limits and their implications for plan operations and compliance
- **Monitor annual updates:** Review IRS announcements each year to confirm whether limits have changed and adjust the plan procedures accordingly
- **Evaluate payroll systems:** Confirm that payroll functionality is configured to apply limits correctly and flag any overages or errors
- **Coordinate with recordkeeper:** Check what processes the recordkeeper has in place to help monitor limits and support compliance
- **Address errors promptly:** If errors occur, ensure timely correction in accordance with IRS and DOL guidelines
- **Implement an audit process:** Establish a regular audit review process to verify that limits are being applied accurately and consistently
- **Communicate both the opportunities – and new limits –** with participants to ensure they are maximizing their savings options

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